Statement by

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on the subject of

The United States-Korea Free Trade Agreement Negotiations

before the

Subcommittee on Trade

Committee on Ways and Means

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Mr. Chairman and Members of the Subcommittee, my name is Alan Reuther. I am the Legislative Director for International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). The UAW appreciates this opportunity to testify before this Subcommittee on the negotiations between the United States and South Korea on a free trade agreement.

The UAW represents over one million active and retired workers, many of whom are employed or receive retirement benefits from auto manufacturers and parts companies in this country. Our testimony will focus on the likely impact of a U.S.-Korea free trade deal on our nation's domestic automotive industry.

The UAW has repeatedly criticized the Bush administration's general approach to trade negotiations. Specifically, we have criticized the administration's failure to negotiate adequate protections for the rights of workers and the environment, adequate safeguards against import surges, adequate responsibilities and obligations for multinational corporations and investors, and adequate protections for the right of governments to defend antidumping laws and other rational rules of international trade and investment. The UAW fully supports efforts to negotiate international trade agreements that promote global economic development and establish fair and transparent rules of international trade. American autoworkers are very concerned, however, that the Bush administration lacks any real commitment to include such rules of fair trade in the U.S.-Korea Free Trade Agreement that is currently being negotiated.

Korea is the ninth largest economy in the world. It is the United States' seventh-largest trading partner, accounting for over $78 billion of bilateral trade in 2006. Overall, the U.S. had a $14 billion trade deficit with Korea last year.

Korea is also the fifth largest producer and third largest exporter of vehicles in the world. In 2006, U.S. imports of Korean automotive products into the United States were valued at $12.4 billion, while U.S. exports of similar products to Korea amounted to just $751 million. **The net result was an $11.6 billion U.S. automotive trade deficit with Korea**. U.S. exports of automotive products to Korea represent just **<u>six</u>** percent of Korean imports into the U.S. of similar products.

Historically, Korea has kept its market almost completely closed to U.S. built automotive products. This has been accomplished through a combination of tariff and non-tariff barriers. Despite previous agreements and memoranda of understanding with Korea to eliminate its barriers to imports of automotive products, the Korean market remains essentially closed to any significant import competition. As this Subcommittee has recognized, "Korea's market [has] the lowest level of import penetration of any major automotive producing economy in the world."

Despite reaching Memoranda of Understanding (MOUs) with Korea in 1995 and 1998 that were intended to eliminate Korea's barriers to competitive automotive imports, the U.S. automotive trade deficit with Korea soared from $1.3 billion in 1994 to $11.6 billion in 2006. The deficit grew particularly quickly after the 1998 MOU, during a period of regular consultations with the Korean government designed to make progress in opening the Korean market. U.S. exports of automotive products in 2006 stood at $751 million, about **half** the level of U.S. exports in 1996, while U.S. imports from Korea grew by more than **300 percent** during that same time period. The U.S. deficit in automotive trade now accounts for more than 85 percent of the total bilateral deficit with Korea, compared with less than one-third in 1998.

The UAW is deeply concerned that the current negotiations by the Bush administration will produce a free trade deal that only serves to make this dismal situation worse. Specifically, we are concerned that a free trade agreement will increase access by Korean automotive producers to the U.S. market, while still allowing Korea to keep its market closed to U.S. built vehicles and auto parts. The net result will be a surge of automotive imports from Korea and the loss of thousands of additional auto jobs in the U.S.

To prevent this from occurring, at the outset of the U.S.-Korea FTA negotiations U.S. producers urged the Bush administration to insist that Korea first meet concrete benchmarks for opening its auto market to imports, **before** the U.S. allows any further access to our market. Regrettably, the United States Trade Representative (USTR) flatly rejected this position.

More recently, the UAW was very pleased that a broad, bipartisan group of Members of Congress sent a comprehensive proposal to President Bush on how any Korean free trade deal should treat automotive trade between the two countries. This proposal was submitted by Representatives Rangel, Levin, Kildee, Upton, Dingell, Kind, Tauscher, Knollenberg, Candice Miller, Ehlers and McCotter, along with Senators Levin, Voinovich, Stabenow and Bayh. The proposal contained incentives for Korea to open its market to U.S. autos. It also included a mechanism to dismantle Korea's non-tariff barriers, as well as safeguards against a surge in automotive imports from Korea. Most importantly, it stipulated that the U.S. tariff on imported pickup trucks should be left for resolution through multilateral WTO negotiations.

The UAW commends this bipartisan group of Members for taking a firm, constructive stand on automotive trade with Korea. In our judgment, this proposal would help to ensure that Korea make concrete progress in opening its automotive market, before it is granted further access to the U.S. market.

Unfortunately, we understand that USTR has also flatly rejected this proposal. Instead, USTR appears to be pursuing an agreement that will eliminate U.S. automotive tariffs, thereby giving imports from Korea even greater access to our auto market. At the same time, USTR seems to be content with an agreement that would allow the Korean government, once again, to make meaningless "promises" about eliminating its non-tariff barriers, with no guaranteed outcome. As a result, the agreement being negotiated by USTR is likely to exacerbate our auto trade deficit with Korea and jeopardize tens of thousands of additional automotive jobs in the United States.

Some analysts have argued that elimination of the U.S. automotive tariffs - the 2.5% tariff on autos and auto parts and the 25% tariff on pickups - will not be problematic because they have not had a major impact on the scope of Korean imports. The UAW believes this view is based on neither logic nor empirical evidence. Because Korea is already a major global producer and exporter of automotive products, the elimination of our automotive tariffs could quickly lead to a ramping up of production capacity by traditional Korean companies for exports to our market. In addition, foreign auto companies would be encouraged to locate production in Korea to take advantage of the elimination of U.S. automotive tariffs. Indeed, the same companies that viewed the U.S.-Thailand FTA negotiations as an opportunity to use facilities in Thailand as a platform to export pickup trucks to the U.S. duty-free would have a similar incentive to establish pickup truck production in Korea in order to gain duty-free access to the U.S. market.

Our experience with NAFTA demonstrates that these concerns are not just idle speculation. When NAFTA was implemented, U.S. tariffs on cars and most auto parts were eliminated immediately and the tariff on pickup trucks initially fell from 25 to 10 percent, and was then phased out completely over a brief, five-year period. As a result, auto companies dramatically increased their production of vehicles and parts in Mexico, and U.S. imports of Mexican made automotive products soared. The UAW is deeply concerned that this same destructive scenario would occur if a Korean trade deal also eliminated U.S. automotive tariffs.

Some analysts have also argued that there is no reason to fear a surge of automotive imports from Korea because Korean companies will be sourcing their vehicles from facilities located in the United States. In our judgment, this argument is equally specious. The existence of the U.S. auto tariffs has created an incentive for Korean companies to locate production facilities in this country. If these tariffs are removed, we could very well see Korean companies abandoning plans for future automotive investment in the U.S.

Furthermore, Korean automakers currently operate only one assembly plant in the U.S., a Hyundai facility. Kia has announced plans to build another assembly plant, but it will not be fully operational until 2010. Korean auto companies sold about 750,000 vehicles in the U.S. in 2006, 554,000 of which were imported. The U.S. market share of the Korean companies is expected to grow in the coming years. Thus, it is abundantly clear that Korean companies will not be able to source most of their sales in the U.S. from production facilities in this country. Notwithstanding any expected investments by Korean automakers in the U.S., most Korean vehicles will still be imported from Korea. As a result, our automotive deficit with Korea will continue to grow.

Our experience with Japan reinforces this conclusion. Japanese auto companies have increased investment and production in U.S. facilities. But the U.S. automotive trade deficit with Japan has grown, because imports from Japan have also risen even as U.S. production by the Japanese automakers has grown. This same scenario is the likely result from the type of Korean trade deal being pursued by USTR.

It is also important to recognize that vehicles assembled in the U.S. by Korean auto companies still have very high levels of parts imported from Korea. Indeed, thirty percent of Korean automotive imports ($3.7 billion) came into this country classified as “auto parts." Production and employment at traditional U.S. auto parts suppliers is threatened by these Korean parts imports. Thus, the mere presence of some Korean assembly operations in this country does not outweigh the much greater negative production and employment consequences from imports of Korean vehicles and auto parts.

The damage that would be done by a surge in Korean automotive imports cannot be offset by toothless promises by the Korean government to address non-tariff barriers that keep U.S. built automotive products out of their market. The fact is, the U.S. automotive trade deficit with Korea has increased even though many of the so-called "commitments" by the Korean government in past MOUs were at least partially fulfilled. For example, as promised, the Korean government made public statements that it would not discriminate against citizens and taxpayers who purchased imported vehicles, made its motor vehicle registrations more transparent, provided better access to regulatory decision-making for foreign interests, and eased certification of imported vehicles and parts. Nevertheless, the 2005 Annual Report of the President on the Trade Agreements Program noted that the removal of some of Korea's barriers to imports of vehicles had no impact on the share of imported vehicle sales in the Korean market. Korea simply relied on other non-tariff barriers to continue to keep its market closed to U.S. automotive products.

Thus, there is every reason to expect that Korea will continue to use a variety of measures to keep its market closed to automotive imports, notwithstanding any "promises" about the elimination of non-tariff barriers. In light of the variety of past methods used by the Korean government to discourage its citizens from purchasing imported vehicles - from the threat of tax audits, to accusations of not being patriotic, to cascading tax penalties, to non-transparent procedures for complying with Korean product standards - it is apparent that Korea will simply find some new means of retaining a protected, closed market for Korean-made vehicles and parts.

The UAW believes the only way to ensure that this situation changes is to insist on results-oriented auto provisions in any trade deal with Korea. Simply stated, we must insist that Korea make tangible progress in opening its automotive market **<u>before</u>** the U.S. allows additional access to our market. For USTR to "give away" the economic benefit of access to our market without requiring the Korean government to first implement concrete changes necessary to alter our automotive trade imbalance is nothing more than continuing to conduct "business as usual" and irrationally expecting different results.

Even if U.S. automotive exports to Korea were to grow modestly as a result of a free trade deal with our country, it is the **balance** in automotive trade that will determine whether U.S. production and employment would benefit. Our experience with NAFTA shows that liberalizing trade with a country that has a well-developed infrastructure for automotive production and a desire to expand it, will lead to a rapidly expanding U.S. auto trade deficit. Given the number of automotive companies already producing in Korea, and the potential for new investments by those companies and others, the U.S. deficit in automotive trade with Korea will almost certainly grow quickly. The adverse impact on U.S. production and employment will be substantial.

Once a surge in automotive imports occurs and our overall auto trade balance deteriorates even further, the existence of a free trade deal with Korea would dramatically restrict the ability of the U.S. government to reverse or even alleviate the impact on workers and communities in this country. The rapid increase in imports from Korea in recent years demonstrates that re-imposition of current tariffs is not likely to be an effective remedy. Instead, at a minimum we would need the types of dispute settlement mechanisms and safeguards contained in the bipartisan Congressional proposal that has been rejected by USTR.

The UAW also has serious concerns about other issues in the U.S.-Korea FTA negotiations. Foremost among these concerns is the treatment of worker rights. We remain opposed to any Korean trade deal that does not include the internationally recognized set of core labor rights and parity of enforcement between the labor provisions and the commercial provisions of the agreement. The worker rights provisions should, at a minimum, conform to those included in the Fundamental Principles and Rights at Work of the International Labor Organization (ILO) and defined in its conventions. The status of labor rights must be the same as other provisions in the trade agreement. Worker rights language must be included in the core text of any U.S.-Korea trade agreement, prevent the reduction of worker rights and standards as a means to advance trade or investment interests, and be subject to the same dispute resolution procedures as other provisions.

Last month USTR Susan Schwab told Congress that when countries negotiate free trade deals with the U.S., "the situation on the ground for workers in these countries is vastly improved." Sadly, as was demonstrated by the article in the March 16th edition of <u>The Washington Post</u> entitled "Labor Rights in Guatemala Aided Little by Trade Deal," the reality "on the ground" does not reflect the rosy picture painted by the Bush administration. The fact is, by failing to insist on the inclusion of strong enforceable worker protections in trade agreements the administration’s trade policies have helped to foster a race to the bottom that has weakened the rights and standard of living of workers in other countries.

The worker rights situation in Korea is very problematic. Korean workers who attempt to exercise core labor rights--freedom of association, freedom to organize and bargain collectively, freedom from child labor, freedom from forced or compulsory labor, and freedom from workplace discrimination -- are routinely thwarted. The U.S. Department of State’s Country Reports on Human Rights Practices-2005 identified numerous areas of worker rights violations in Korea. There are restrictions on the right to freedom of association for public sector workers and other provisions in Korea’s laws that limit the right to organize and bargain collectively. Auto workers in Korea have faced serious barriers to exercising the right to organize unions and bargain with employers without government interference. The president of the Korean Metal Workers’ Federation (KMWF) was arrested last year for his participation in a protest against the government’s effort to change Korea’s labor laws to allow employers to use more temporary and non-regular workers. Already, employers are hiring temporary and non-regular workers, rather than permanent workers, as a way to stymie the right of their workers to organize a union.

The UAW also is concerned about the investment and government procurement provisions in any Korean trade deal. The investment provisions of recent agreements have placed too much weight on protecting corporations from legitimate actions by governments, and too little weight on the need for governments to retain the authority to enact laws and implement regulations that defend sustainable economic development, environmental protections, and public health and safety. We oppose any provisions that would enable foreign corporations to use an investor-state dispute resolution process to circumvent the judicial process that national investors must use. When foreign investors choose the investor-state process to resolve disputes with the government, they can avoid the protection of U.S citizens’ rights that our courts provide through respect for due process and public access. This discrimination in favor of foreign investors conflicts with the U.S. negotiating objective for investment issues that was approved by Congress.

The UAW supports retaining the ability of governments to condition government procurement, including the treatment of foreign investors, on meeting democratically- determined criteria. This includes the right of governments to impose sanctions such as those used against firms that invested in South Africa during the apartheid regime, to implement “living wage” and other standards for procurement, and to choose to provide public services themselves, rather than to privatize these functions. When a mix of public and private providers is responsible for supplying public services, the determination of the appropriate mix by governments must not be undermined by a trade agreement that gives new rights to private companies to expand their role. In addition, governments must retain the right to determine how new services will be provided.

The UAW believes that exchange rates, foreign debt and related issues also should be addressed in any Korean trade deal, as well as measures to respond to the adverse impact of financial instability. Capital markets and exchange rates can play a major role in affecting international trade flows of goods and services. Korea's economy and its workers were seriously affected by the 1997-1998 financial crisis that hit many Asian countries. Korea's currency, the won, declined precipitously in value against the dollar, making U.S. goods more expensive to Korean consumers. Excluding exchange rates and the host of factors that contribute to determining them, such as the level of outstanding foreign debt, leaves open the possibility that changes in tariffs and non-tariff barriers will be overwhelmed by unanticipated shifts in the exchange rate in determining the size and balance of U.S.-Korea trade.

While the won appreciated against the dollar over the final nine months of 2006, it has depreciated during the first three months of 2007, possibly as a result of concerns raised within the Korean government over the competitive disadvantage created by the previous change in the value of its currency. In the past, there have been pressures to lower the value of the won resulting in actions by the Korean government. There is certainly the potential for similar actions in the future. Measures to counteract any such currency manipulation must be addressed in any U.S.-Korea free trade agreement.

In conclusion, the UAW continues to be deeply concerned about the negative consequences the U.S.-Korea free trade agreement being negotiated by USTR could have on U.S automotive production and employment. We urge you and your colleagues in the House to reject any trade deal that fails to include at least the requirements in the bipartisan Congressional auto proposal. We also urge you to insist on the inclusion of meaningful worker rights protections, as well as the other provisions discussed above.

The UAW appreciates this opportunity to present our views on the U.S.-Korea Free Trade Agreement negotiations. Thank you.

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